

**Rev. Josh Pawelek
Glastonbury, CT
March 21, 2022**

**Testimony in support of:
SB 443 An Act Concerning the Tax Incidence Report, Tax Incidence Analyses
and the Disclosure of Returns and Return Information**

Senator Fonfara, Representative Scanlon, Senator Martin, Representative Cheeseman,
distinguished members of the Finance, Revenue and Bonding Committee:

My name is Josh Pawelek. I live in Glastonbury. I am the minister of the Unitarian Universalist Society: East in Manchester. I am also a clergy leader with Recovery for All, a statewide coalition of faith, community, and labor organizations united to eliminate systemic inequalities and build a better, more fair, more just Connecticut. Thank you for the opportunity to submit testify in support of SB 443, An Act Concerning the Tax Incidence Report, Tax Incidence Analyses and the Disclosure of Returns and Return Information.

Tax incidence is an estimate of the total tax burden placed on residents. It includes both the taxes filers pay directly (e.g., income tax, sales tax, property tax, etc.) and those that are indirectly shifted onto them by businesses through higher rents, consumer prices and fees. Connecticut's first tax incidence analysis was done in 2014 using 2011 data. It found that Connecticut's state and local tax system disproportionately impacts low- and middle-income earners. Specifically, it found that taxpayers earning up to \$48,000 per year effectively spent 23.6% of their income on taxes and the middle-class paid about 13% of their income in taxes. But the top 10% of earners paid just 10%, and the top 1% paid an astonishingly low 7.5%. If we're trying to understand the persistence of economic inequality in Connecticut, this extraordinary differential in the tax burden is a major driver.

The Department of Revenue Services issued a follow-up report this past February. The 2022 report, based on 2019 data, shows that low- and middle-income taxpayers have lost ground since 2014, now paying up to 26% of their income in taxes, while the wealthy's effective tax rate went up just 0.3%. The same upside down effect can be said of corporate taxes. The 2022 report shows small businesses with adjusted gross incomes of \$500,000 or less, pay a much higher percentage of that income in taxes than businesses that earn \$1 million or more.

What's troubling about the 2022 report isn't just that it shows the rich are getting richer and the poor are getting poorer, but that DRS Commissioner Boughton and his team chose to utilize a completely different methodology to prepare the 2022 report than was used in 2014. Four tax categories that were included in 2014 were excluded in 2022 (taxes on utilities, insurance, real estate transactions and estates). The data was reported by household in 2014 and by individual in 2022. These differences make it very difficult to compare and contrast between the two reports and understand how relative burdens may have changed. Personally, I find it difficult not to conclude that the changes were a deliberate attempt to hide the true regressive nature of Connecticut's tax structure. I hope I am wrong about that.

The 2022 report, which was outsourced to a third party vendor, states clearly, almost proudly, that it does not include any forecasting or trend analysis. On page 15, it also states that taxes paid by non-resident corporations were “not in the scope for this study.” When questioned by members of this Committee on March 11th about relative tax burdens by gender and race, Commissioner Boughton was unable to answer. When asked about the much-whispered myth of millionaires leaving the state, he could only offer anecdotes, not data. These are vital pieces of the overall tax picture that should be common sense inclusions in any tax incidence analysis.

SB 443 will ensure that the mistakes, oversights, and gaps of the 2022 report do not happen again and provide confidence that DRS will create future reports that can clearly show trends over time.

The General Assembly can make real transformational progress in addressing Connecticut’s inequities by using coherent, historical data and forecasting to inform their tax policy decision making. SB 443 will ensure that future tax incidence reports are detailed and uniform, giving policymakers the tools they need to right-size Connecticut’s unequal tax burdens.

To ensure future reports provide a full picture of how tax burdens impact all kinds of taxpayers, including taxpayers of color and women, we encourage the Committee to include the following language after line 21:

(D) For each income class, the racial and gender makeup;

We urge the Committee to support SB 443 with this change.

When we say that the rich are getting richer while the poor are getting poorer, it is not hyperbole. It is not rhetoric. It is a factual statement. The tax incidence reports of 2014 and 2022 provide the evidence. And that evidence ought to be weighing heavily on every conscience in this leadership body, ought to be driving the movement for tax fairness in Connecticut.

Thank you for the opportunity to testify.

Respectfully submitted,

Rev. Josh Pawelek